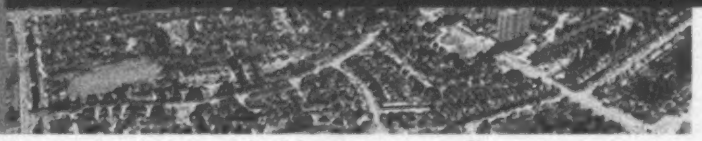
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Halifax CMA



Canada Mortgage and Housing Corporation

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Economic Overview

Economic Growth Eases as Demand for Labour Remains High

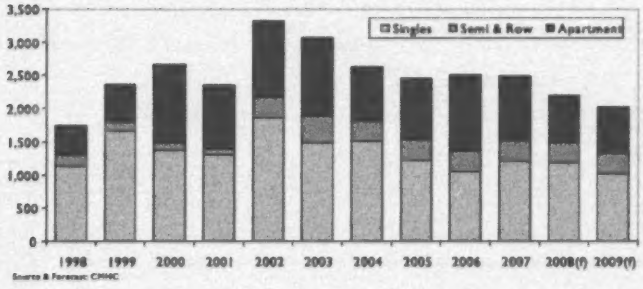
The economic fundamentals in Halifax have been solid over the past few years but the economy is beginning to show signs of change. Economic uncertainty will result in more moderate economic growth and more modest levels of employment growth, in spite of the fact overall employment in Halifax remains very strong. After rising two per cent in 2007, employment reached near record levels midway through 2008. Growth has moderated, however, to 0.7 per cent as of August 2008 and growth is expected to remain near one per cent over the next two years. The unemployment rate is just over five per cent and is forecast to remain near this level over the next 18 months.

Metro Halifax is experiencing a high level of economic activity. Demand for construction labour has been boosted by both commercial and

Figure 1

Overall Housing Starts to Stabilize

Annual housing starts by type of structure, Halifax CMA



Source & Forecast: CMHC

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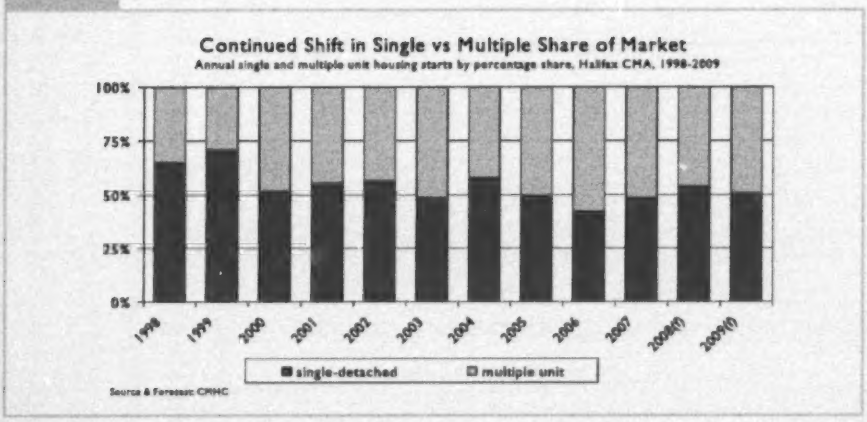
Figure 2



residential construction projects. Commercial projects include retail developments at Dartmouth Crossing and Russell Lake West, new hotel construction and a new parking facility at the Stanfield International Airport, to name a few. Residential construction has remained very active in the city with near record levels of units under construction. All told, the demand for construction labour pushed employment in the industry to nearly 15,000, a record level, in the peak summer months of 2008.

Other projects supporting the economic output in Metro Halifax include new aerospace contracts, new defense contracts for upgrading navy ships, ongoing demand for Information Technology professionals and spin off demand for services from nearby oil and gas exploration projects. The shipping industry, however, continues to experience reduced levels of activity at the Halifax ports.

In spite of forecasting reduced activity in both residential construction and home sales, sustained economic activity and strong employment will help bolster housing demand at relatively healthy levels in historic terms.

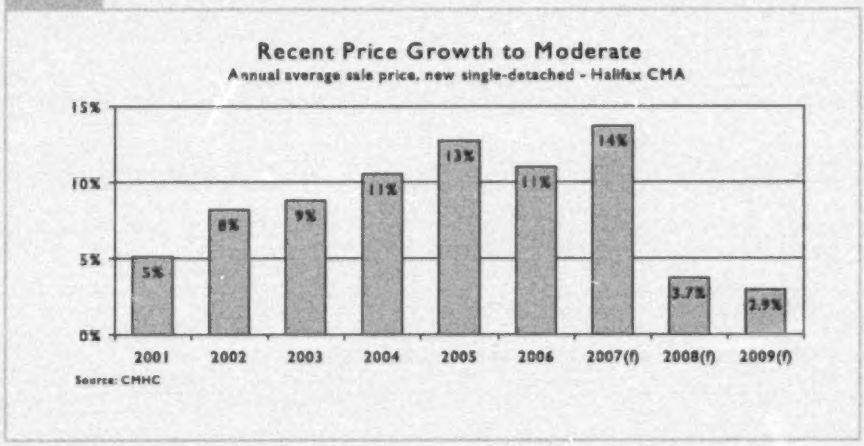
The working population is aging in Halifax at a fairly rapid rate. In 2000, there were approximately 100,000 people between the ages of 25 and 44 employed in the city. At the same point in time, there were only 56,000 people employed between the ages of 45 and 64. As of 2008, the number of people employed in the younger age group declined seven per cent to just over 93,000. Over the same time period, the number of employed people between the ages of 45 and 64 grew to over 81,000 – an increase of 46 per cent. This is the result of several factors including natural aging, strong migration into Halifax and sustained or rising demand for labour in the city.

Interestingly, the unemployment rate in the older age group is significantly lower than the younger group. It was recorded at approximately 3.5 per cent in 2007 compared to 5.2 per cent for the 25 to 44 year old age group.

Through the first three quarters of 2008, inflation, as measured by the Consumer Price Index, was up over three per cent in Halifax following the previous three year average of just over two per cent. Average incomes had been growing at a rate in excess of inflation in recent years in Halifax however the trend stopped in 2008. After growing over five per cent in 2007, average weekly earnings growth moderated to just over two per cent in 2008. The average annual wage in Halifax is just over $36,000 as of August 2008.

Moderate employment growth and wage growth combined with rising home prices will contribute to somewhat reduced levels of housing construction and sales in 2008 and 2009.

Figure 3



Mortgage Rates

Mortgage rates are expected to be relatively stable throughout the last quarter of this year, remaining within 25-50 basis points of their current levels. Posted mortgage rates will decrease slightly in the first half of 2009 as the cost of credit to financial institutions eases. Rising bond yields, however, will nudge mortgage rates marginally higher in the latter half 2009. For the last quarter of 2008 and in 2009, the one year posted mortgage rate will be in the 6.00-6.75 per cent range, while three and five year posted mortgage rates are forecast to be in the 6.50-7.25 per cent range.

Figure 4

New Home Market

New Home Construction to Decline

New home construction levels declined in 2008 and activity will moderate further in 2009. Single-detached home construction has been relatively strong throughout 2008 compared to last year, while multi-residential construction has been weak due to a significant reduction in apartment-style unit starts.

Demand for new single-detached housing increased along with higher demand in the existing homes market in 2008. A record year for existing home sales in 2007 depleted inventory and this encouraged buyers and builders to construct new homes to meet demand. This has driven single starts up 12 per cent through the first three quarters of 2008 compared to the same period in 2007. Expect this demand to soften in the final quarter of 2008 and into 2009. Single starts will decline in the fourth quarter and this will reduce the 2008 total to 1,175 units which is just below last year's level. In 2009, single starts will decline further to approximately 1,025.

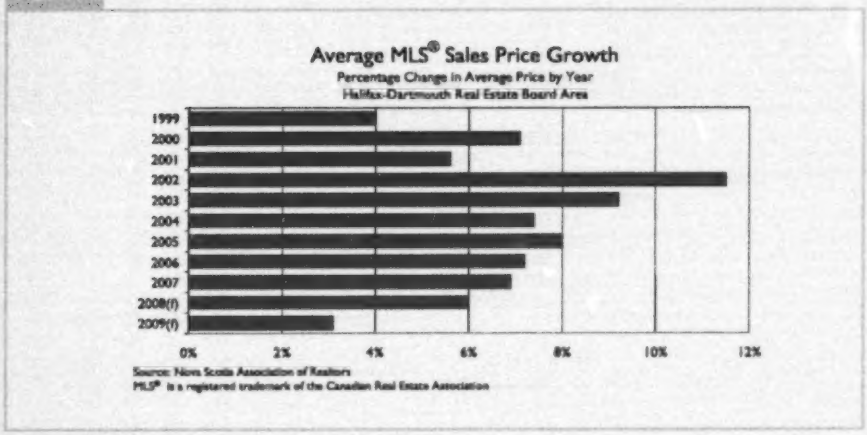
There are several reasons for the expected drop in single-detached construction. The demand for existing homes has cooled and inventory has increased. This will mean that buyers will have more selection in the existing homes market and less need to seek out new construction. In addition, buyers are facing increased economic uncertainty, weaker economic growth and slower employment and wage growth which will result in reduced demand for new housing.

Rising costs of labour, materials and development have been contributing to rising prices for new homes. New home prices have increased by an average rate of ten per cent annually since 2001. The rising costs and the resulting higher prices are also contributing to reduced demand for new single-detached homes. Expect price growth to slow to below four per cent in 2008 and to below three per cent in 2009 with the average single-detached home price reaching $345,000 and $355,000 in 2008 and 2009 respectively.

Multi-residential construction has cooled considerably in 2008 due to fewer semi-detached and apartment-style starts. Row housing is one area that actually saw strong growth in 2008 and this is expected to grow nearly 30 per cent by the end of the year. While row housing starts will decline in 2009, the forecast of 165 new units remains well above the historic average. Semi-detached starts however will remain lower in 2008 and stay flat in 2009.

There have been relatively few apartment-style units started in 2008. In fact, 2008 and 2009 will record only 700 apartment style starts per year. The decline in new apartment starts is due at least in part to the overall economic environment and weaker economic growth, but is also due to larger scale projects with longer periods of construction. In 2007, there was a record level of nearly 1,800 apartment units under construction. While this number has decreased in 2008, it remains quite elevated at

Figure 5



over 1,500 units. With the reduced numbers of starts, this means that projects have been taking longer to complete. One reason is the scope of the projects but another key reason is demand and competition for labour resulting in various project delays. The demand for labour is further challenged by increasing levels of non-residential construction in Metro Halifax.

Offsetting the weakness in multiple starts is fairly sustained demand. Demographic trends toward increasing numbers of smaller households will mean demand for smaller residential units will continue. Furthermore, the rising prices of single-detached homes and the rising overall costs make apartments an attractive alternative.

Resale Market

Declining Existing Home Sales and Moderate Price Growth

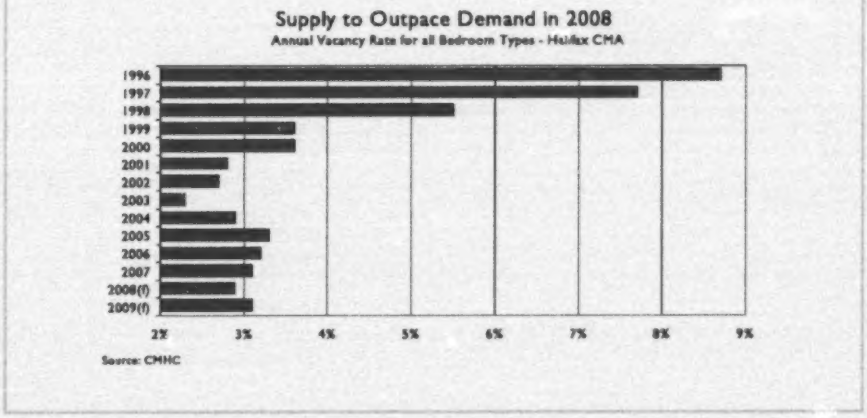
After a record setting year in 2007, MLS® sales have cooled in 2008 and activity will remain subdued over the forecast period. The average price for an existing home in Metro Halifax continues to rise and while price growth will slow it will still remain positive throughout the forecast period.

In 2007, MLS® sales grew over 11 per cent but through three quarters of 2008 have fallen over seven per cent. They are forecast to remain down seven per cent in 2008 with approximately 6,450 sales and to fall a further four per cent in 2009 to 6,200. In spite of the decline this year, the number of MLS® sales remains very near previous record levels recorded in 2002 and 2005.

Demand for existing housing remains fairly strong, but will moderate over the next 12-18 months. Recent wage growth and overall strong employment levels combined with strong household formation have contributed to demand for housing in general. The existing home market is attractive to many due to the relatively lower prices compared to new construction and the often more established surrounding neighborhoods. In terms of price, the average price of an existing home has increased rapidly in recent years and is now forecast to be $235,000 in 2009. For a new home, however, the average price is forecast to be $355,000 in 2009 which is more than 50 per cent higher than an average existing home.

Over the forecast period, existing home sales will continue to face the challenges seen in 2008. Sales have fallen from record highs due to slower economic growth which has

Figure 6



resulted in slower employment and wage growth. Rising home prices and rising housing-related costs are contributing to weaker demand as is some general economic uncertainty. For these reasons, sales will decline in the medium term.

After doubling in the past ten years and averaging nearly eight per cent growth in the past five years, existing home prices will grow more moderately over the forecast period. Expect a further six per cent growth in 2008 to $228,000, while in 2009 price growth will slow to three per cent to $235,000 due to lower demand and sales.

An expected increase in the number of listings will also put downward pressure on price growth as potential buyers find more stock to choose from. New listings will increase over four per cent in 2008 and a further one per cent 2009. These increases follow a four per cent decrease in new listings in 2007. Active listings have increased even more with a 14 per cent increase in August 2008 compared to August last year.

With listings on the rise and price growth easing , the overall resale market has been trending away from sellers' market conditions and moving more into balanced market conditions over the past couple of years. Expect this trend to continue and the possibility of shifting to buyers market conditions late next year.

In spite of rising inventory and more modest levels of sales, the average time to sell a home has decreased in 2008 from 89 to 84 days-on-market.

Rental Market

Vacancy Rates and Rents to Rise in Short Term

Expect apartment supply to increase over the next 12 to 18 months as near record levels of residential units under construction complete or near completion. Before rising to 3.2 per cent in 2009, expect vacancy rates to drop below three per cent in 2008. The current year drop will be due to delays in the availability of units under construction, whereas in 2009 these new units will be added to the supply and exert upward pressure on vacancy rates. During the same forecast period, expect average rents to rise in response to rising construction and operating costs. Average rents will rise just in excess of the rate of inflation at approximately three per cent both this year and next.

In 2007, there was an average of nearly 1,800 apartment units under construction. While this figure has declined to approximately 1,500 units, it stands as the second highest level ever of units under construction. This in turn will result in hundreds of new rental units being added to the market and will put upward pressure on vacancy rates in the medium term.

Offsetting the increase in supply, will be continued demand for rental units. Demographic shifts towards higher numbers of smaller families will continue to impact demand for small units and apartment living. The rising cost of new and existing homes will also make rental units an attractive alternative.

Further offsets to the impact of increasing supply will be weaker employment growth and weaker wage growth. As employment and wage growth moderate, demand for rental units will remain strong as apartments will be seen as an alternative to homeownership.

Continuously rising costs of labour, materials and development will contribute to higher construction costs for builders while higher prices for heating fuel and utilities will contribute to higher operational costs for landlords. These rising costs will in turn lead to rent increases in excess of the rate of inflation over the next 12 to 18 months. An average two-bedroom unit will rent for approximately $830 in 2008 and rise to $855 in 2009.

Forecast Summary
Halifax CMA
Fall 2008

	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	6,496	6,239	6,938	6,450	-7.0	6,200	-3.9
MLS® New Listings	10,480	10,701	10,247	10,700	4.4	10,800	0.9
MLS® Average Price ($)	188,115	201,830	215,018	228,000	6.0	235,000	3.1
New Home Market							
Starts:							
Single-Detached	1,216	1,056	1,207	1,175	-2.7	1,025	-12.8
Multiples	1,235	1,455	1,282	1,025	-20.0	1,000	-2.4
Semi-Detached	146	154	166	135	-18.7	135	0.0
Row/Townhouse	169	154	147	190	29.3	165	-13.2
Apartments	920	1,147	969	700	-27.8	700	0.0
Starts - Total	2,451	2,511	2,489	2,200	-11.6	2,025	-8.0
Average Price ($):							
Single-Detached	263,663	292,665	332,821	345,000	3.7	355,000	2.9
Median Price ($):							
Single-Detached	235,900	267,000	305,000	315,000	3.3	325,000	3.2
New Housing Price Index (% chg.)	2.8	4.3	5.8	9.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	3.3	3.2	3.1	2.9	-0.2	3.2	0.3
Two-bedroom Average Rent (October) ($)	762	799	815	830	-	855	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.06	6.28	6.90	6.75	-0.15	6.31	-0.44
Mortgage Rate (5 year) (%)	5.99	6.66	7.07	7.05	-0.02	6.92	-0.13
Annual Employment Level	202,500	204,800	208,400	210,500	1.0	212,500	1.0
Employment Growth (%)	0.1	1.1	1.8	1.0	-0.8	1.0	-0.1
Unemployment rate (%)	5.8	5.1	5.3	5.1	-	5.0	-
Net Migration [1]	1,527	1,104	1,500	1,200	-20.0	900	-25.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Nova Scotia Association of Realtors, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2007 migration data is forecasted

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